Executive Summary

550k+

Net new dwellings

CONTRIBUTING TO HOUSING SUPPLY IN THE NEXT 3 YEARS

2024–25

The year net overseas migration

(NOM) IS EXPECTED TO RECOVER TO PRE-PANDEMIC LEVELS

KEY POINTS

COVID-19 has had profound effects on housing markets. Closed borders and falls in net overseas migration (NOM) have led to fewer households forming (in aggregate), but housing markets have remained strong.

- NOM of -89,000 in 2021 and expected NOM of -41,000 in 2022 has underpinned lower rates of household formation. While the Centre for Population has upgraded its outlook for NOM since our first report, it still expects Australia's population to be 1.5 million lower by 2030–31 compared with the pre-pandemic outlook.
- Despite the large shock to population growth and lower rates of household formation, housing markets have remained resilient and price growth has remained strong on the back of fiscal and monetary stimulus.
- Strong house price growth has raised concerns about financial stability. The Australian Prudential Regulation Authority (APRA) has intervened by increasing the mortgage serviceability buffer, with price growth slowing in recent months.

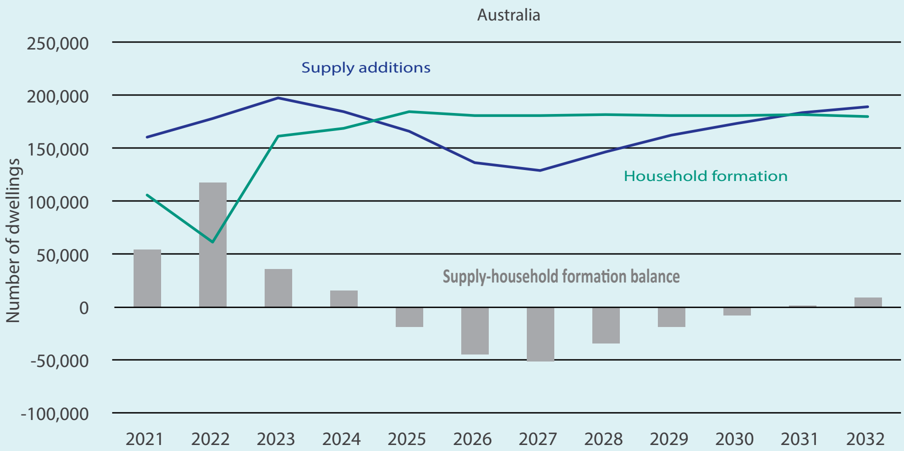
Over the medium term, we anticipate new housing supply to remain strong, with more than 550,000 net new dwellings expected over the next 3 years.

- Over the next 3 years, we expect an average of 184,000 net new dwellings will be constructed per annum, which are historically high levels.
- Rising interest rates are likely to lead to a a slowing of new construction. At the time of finalising our projections, the RBA said raising interest rates wasn't plausible until 2024, although more recently has said rates could rise sooner. Financial markets also anticipate an earlier rise in interest rates.
- NHFIC's supply projections have been revised up substantially since our last report particularly between 2022 and 2024, largely due to the stronger than anticipated impact of the stimulus put in place to support the construction pipeline.
- The stimulus put in place to mitigate the impact of the pandemic on the economy – including the Federal Government's HomeBuilder program – has led to dwelling construction running well ahead of the NOM-induced falls in new household formation. The gap is expected to close over the next three years as NOM recovers and stimulus is withdrawn. If housing supply grows faster than expected new household formation over the next few years, it could help to put downward pressure on housing costs.

More than 1.7 million new households are expected to form from 2022 to 2032, led by growth in lone person households, although ongoing uncertainty about the COVID-19 pandemic means there is a significant risk to the NOM outlook.

- New household formation is expected to recover strongly from 60,000 in 2022 to 182,000 by 2025. Annual average household growth of around 175,000 is expected over the 10 years to 2032
- NHFIC expects around 361,000 families with children (21% of total growth), 488,000 families without children (29% of total growth) and 595,000 lone person households (35% of total growth) to form from 2022 to 2032.
- From 2022 to 2023 (cumulatively), new household formation is expected to be broadly in balance with anticipated new supply. However this is largely driven by lower levels of household formation, owing to COVID-19. Once NOM recovers back to pre-pandemic levels by around 2024–25, new household formation is expected to exceed new supply by a cumulative 163,400 dwellings out to 2032.

Annual change in household formation and supply and supply-household formation balance



Source: Macroplan, NHFIC

1.7m
New households
EXPECTED TO FORM FROM 2022 TO 2032

488k
additional
COUPLE FAMILIES WITHOUT CHILDREN BY 2032

595k
additional
LONE PERSON HOUSEHOLDS BY 2032

▲ 26%

regional
dwelling prices

▲ 21%

capital city
dwelling prices

IN THE YEAR TO DECEMBER 2021

6 years

THE TIME IT CAN TAKE TO GET NEW HOUSING SUPPLY TO MARKET

KEY POINTS (continued)

Supply impediments and growing lags and lead times in many (particularly detached) markets around Australia are increasing housing costs.

- NHFIC's liaison suggests there have been difficulties in accessing new land supply, despite demand rapidly outpacing supply in many greenfield markets, particularly parts of Sydney and SE Queensland.
- Given it can take more than 6 years to get new housing supply to market in some areas, pulling back on development decisions now will exacerbate affordability problems in future years when population growth is expected to return to more normal levels.
- If housing authorities actively slow or impede the flow of new housing supply, it can exacerbate upward pressure on rents and prices, something that should be avoided if improved housing affordability is a primary objective.

COVID-19 has induced strong movements of people from major cities to outer metropolitan and regional areas, putting pressure on local housing markets. COVID-19 has also seen less people leaving the regions for the capital cities.

- Regional dwelling prices grew an average of 26% over the year ending December 2021, outpacing capital cities where prices grew 21%. Regional rents rose more than capital city rents in all states except NT and WA over the course of the pandemic.
- Over 2020 and 2021, regional VIC saw dwelling price growth of 30% which is more than double the growth in Melbourne. Regional NSW saw dwelling price growth of 40% compared with 27% in Sydney.
- Trends in 2021 suggest that in the larger states, there could be ongoing strong net movement from capital cities to the regions into 2022, although it will take some time to determine whether these behaviours are sustained relative to pre-pandemic urban-regional trends.

Affordability for renters and first home buyers deteriorated across most cities and regions in 2021. Rents are likely to continue to rise in the near term as international border restrictions are relaxed.

- In Sydney and Melbourne, rental affordability improved modestly since 2020 (through to September 2021) given these cities were most affected by the falls in migration, although rental pressures in these cities have been building on the back of falling vacancy rates. In other cities and regional areas, rental affordability has deteriorated.
- Sydney and Hobart remain the most unaffordable places for first home buyers, with the bottom 60% of income earners being able to afford mortgage repayments on less than 10% of the housing stock in the market. This is a further deterioration in affordability since 2020.
- First home buyers continue to fare relatively better in regional areas, but affordability has also deteriorated across many regions in 2021, particularly regional NSW, Vic and Tas due to relatively strong price growth.
- Recent pandemic related initiatives to support social and affordable housing will likely provide some partial catch up for addressing growing waiting lists. Governments should continue to improve the quality and consistency of their social and affordable housing data to help inform improved long term housing needs assessments.

Sydney & Hobart

THE LEAST AFFORDABLE CITIES FOR FIRST HOME BUYERS